



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

SUMMARY OF THE MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

HELD ON

Monday, July 27, 2009

2:30 p.m.

The Investment Committee (IC) of the Arizona State Retirement System (ASRS) met at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix, Arizona 85012. Mr. Tom Connelly, Chair of the IC, called the meeting to order at 2:36 p.m., Arizona Time.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Connelly, Chair
Mr. Chris Harris, Vice-chair (via telephone)
Mr. Larry Trachtenberg
Mr. Jim McLaughlin

A quorum was present.

2. Approval of the Minutes of the May 11, 2009, Regular Session IC Meeting

Motion: Mr. Jim McLaughlin moved the minutes of the May 11, 2009, Regular Session IC meeting be adopted as presented. Mr. Larry Trachtenberg seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

3. Presentation, Discussion, and Appropriate Action Regarding ASRS Asset Allocation Report and Current Investment Management Division (IMD) House Views

Mr. Gary Dokes, Chief Investment Officer (CIO), introduced the topic. Mr. Dokes provided an update of investment activities that have transpired since the last meeting, the current projects the IMD is working on, and the IMD's Investment House Views. Mr. David Underwood, Equity Portfolio Manager discussed the IMD's perspective on the asset classes and investment strategies in which the ASRS currently invests.

Mr. Al Alaimo discussed how the IMD continues to favor a modest overweight in Fixed Income. In addition, Mr. Alaimo identified numerous tactical investment opportunities that the IMD continues to explore.

4. Presentation, Discussion, and Appropriate Action Regarding Asset Allocation Study (Part 1)

Mr. Dokes introduced the topic. Mr. Allan Martin, Partner, New England Pension Consultants (NEPC) presented Part 1 of the Asset Allocation Study, which depicted multiple asset allocation policy scenarios with expected return/risk profiles which incorporate both strategic and tactical investments in varying economic and financial market conditions.

Mr. Chris Levell, Partner, (NEPC) discussed the thematic recommendations from their analysis including: reducing Public Equity exposure and restructuring the Fixed Income allocation.

Mr. Martin discussed Real Assets such as Real Estate, Infrastructure, Energy and Agribusiness.

Mr. Paul Matson, Director, suggested that a descriptor be created to clearly indicate:

1. The precise definition of Real Assets
2. The ASRS specific goals of potentially investing in Real Assets

5. Presentation, Discussion, and Appropriate Action Regarding ASRS Investment Risk Assessment

The IC postponed this topic until a subsequent meeting.

6. Presentation, Discussion, and Appropriate Action Regarding ASRS Investment Management back-office Scope of Work (SOW) and Potential Modifications to Services Provided by ASRS Real Estate and Private Equity Consultants

Mr. Matson reviewed the services to be provided by the ASRS Investment Management back-office vendor, Credit Suisse, specifically as they relate to performance data collection, performance analysis, and presentation of performance results. Mr. Matson commented on the primary reasons for contemplating and ultimately procuring the services of the back-office vendor as the following: 1) to better allocate resources internally among staff, 2) to take away some administrative burden from staff and 3) to create independence in the performance calculation and verification process by eliminating the conflict associated with having the ASRS private consultants being the same party responsible for both underwriting due diligence and recommending investments as well as for performance calculations and reporting. Mr. Harris voiced concern about the proposed governance and oversight structure indicating that the private asset class consultants more typically conduct performance measurement and are also fiduciaries. Mr. Harris also indicated that there could be some subjectivity in the performance methodology applied. Alan Martin of NEPC indicated that calculation methodologies are generally standard across the industry. He went on to say that in the case of private equity performance, for example, if there were inconsistencies with the generated and reported data set, there would be an additional layer of oversight provided by Ennis Knupp, the ASRS' current private equity consultant. Mr. Matson confirmed to the IC Credit Suisse's role as a fiduciary of the ASRS. In addition, Alan Martin of NEPC indicated that 1) the capability of providing performance calculations is not the strength of virtually any private consultant and 2) he is seeing a trend in the overall

market place where the more competent and capable public funds are moving in the direction of assigning the performance calculation function to an independent third party which has direct interface with underlying managers. The majority of the IC agreed that the back-office vendor would be responsible for performance data collection, performance analysis, and presentation of performance results, and as a result the scope of work for the PEC and REC consultants would be reduced accordingly.

7. Presentation, Discussion, and Appropriate Action Regarding the Director's Asset Class Committees' Activity Updates

The IC postponed this topic until a subsequent meeting.

8. Call to the Public

No members of the public requested to speak to the IC.

The meeting adjourned at 6:14 p.m.

Respectfully submitted,

Andriana Valentino, Secretary Date

Gary R. Dokes, Chief Investment Officer Date